Improving the quality of NHS annual report and accounts – Performance reports

Good practice note

Prepared by Audit Strategy
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.
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Introduction

Purpose

1. The annual report and accounts are a public report on the financial and governance affairs of each NHS board for the financial year and are laid in the Scottish Parliament. As such they should be prepared to the highest standards and presented in a way that is helpful and informative to the user. Audit Scotland previously published good practice notes on the 2013/14 and 2014/15 accounts which have assisted boards to improve the quality of presentation.

2. This good practice note, which considers the performance report, is designed to build on that work to help all boards improve the disclosures included in their accounts and to, not only meet the applicable requirements, but also reach the standard of the best seen in 2015/16.

Background

3. It is the responsibility of the Accountable Officer and board members to prepare the annual report and accounts. The accounts are an important method of communicating effectively with stakeholders on issues of finance and governance.

4. Boards are required to prepare their accounts in accordance with a direction issued by Scottish Ministers. The direction requires compliance with the accounting principles and disclosure requirements of the Government financial reporting manual (the FReM) and with the requirements of the NHS boards’ accounts manual for annual report and accounts (the accounts manual).

5. Auditors have a role in assisting boards to produce relevant, concise and clear accounts which provide the users with an understandable and balanced assessment of the performance and financial position of the board.

6. The 2015/16 FReM and accounts manual were amended to require the annual report and accounts to comprise a performance report, an accountability report, and the financial statements.

7. The 2016/17 FReM was amended to clarify that its disclosure requirements apply to Scottish bodies only where they originate in accounting standards or the Companies Act. The accounts are also required to meet the requirements of Scottish legislation and the Scottish public finance manual (SPFM). The 2016/17 accounts manual reflects this clarification.

Summary of key messages and recommendations

8. Audit Scotland has reviewed all the territorial health boards’ 2015/16 performance reports to identify instances of good practice and areas for improvement. The main messages from this review are summarised in the following table
9. On the basis of the above messages, we have made recommendations throughout the report and included these in an improvement checklist to assist boards in the preparation of their performance report.

10. The remainder of this good practice note discusses these messages and recommendations further and highlights some of the good practice adopted by boards. The examples used are all taken from boards’ 2015/16 annual report and accounts.

Contact points

11. The contact points for this good practice note are Neil Cameron 0131 625 1797 or Helen Cobb 0131 625 1901.
The performance report

Introduction

12. The purpose of the performance report is to provide information on the board, its main objectives and strategies and the principal risks it faces. The FReM's requirements for the performance report are based on the matters required to be dealt with in a strategic report as set out in the Companies Act 2006.

13. In summary, the performance report should provide a fair, balanced and understandable analysis of the board's performance.

Length of performance report

14. Boards need to strike a balance between completeness and conciseness in the level and type of information provided. There are risks that boards are either overly brief and do not fully meet the FReM's minimum requirements or they include too much unnecessary information leading to the main messages being lost.

15. The introduction of the new format of the 'annual report section' in 2015/16 offered boards the opportunity to revisit the content of their performance report (which effectively replaced the previous requirement for a strategic report).

16. In accordance with recommendations in previous good practice notes, most boards now make effective use of hyperlinks, cross referencing and signposting to refer the user to further documents and information available. However, there remains more that can be done to

More than half of the boards reduced the length of their 2015/16 performance reports compared with the 2014/15 strategic report.
We recommend that boards review the content of their performance report annually to satisfy themselves that it addresses the specific issues and priorities in the year and meets any revised disclosure requirements.

**Balance between overview and analysis**

17. The FReM requires the performance report to have two sections: a performance overview and a performance analysis.

18. The performance overview section should give the user information to understand the board, its purpose, the key risks to the achievement of its objectives and how it has performed during the year. The analysis section is where the board reports on its most important performance measures, including an analysis using financial information from the financial statements.

19. In general, the overview section should be used to set the scene and summarise issues which can then be developed and explained in the analysis section.

20. The FReM expects that the overview section should be no more than ten to fifteen pages, and all boards met this expectation. However, in some cases the overview section included most of the detail and was consequently longer than the analysis section.

We recommend that boards maintain a good balance between the overview and analysis sections and provide the detail in the analysis section.
Learning from best practice in corporate reporting

21. Boards can learn from recognised best practice elsewhere. For example, the Financial Reporting Council’s (FRC) Annual review of corporate reporting 2015/16 includes a useful checklist which highlights the following nine characteristics of good corporate reporting:

- A single story
- How the money is made
- What works, what doesn’t
- Nine characteristics of good corporate reporting
- Summarise
- Clarity
- Cut the clutter
- Consistency
- Explain change
- Truth and fair

22. Although, the characteristics relate to the annual report and accounts as a whole, they apply in principle to the information included in the performance report.

We recommend that boards consider the characteristics in the FRC checklist when assessing the appropriateness of disclosures in their performance report.

23. In addition, the National Audit Office, in conjunction with PwC, presents annual awards for best practice in corporate reporting in the public sector. In 2016, the Department of Energy and Climate Change (DoECC) received a highly commended award for their annual report and accounts.

24. The DoECC annual report presents a clear narrative and a consistent thread of information, telling the story of the department with the use of infographics and charts to emphasise the significant issues. As an example of good balance, the performance overview is five pages long compared with fourteen pages for the performance analysis.

25. The overview section uses an infographic to set out the priorities for the department. These images are used to introduce related items throughout the performance analysis creating continuity and allowing users to easily follow the story of the department’s year. There is also good use of banner headlines to emphasise performance measures and, while these have only been used to highlight positive messages, areas for improvement are also reported.
26. The NAO has also published Examples of good practice in annual reports which highlights some of the best practice that they identified through their review of public sector annual reports.

27. The use of innovative presentation techniques such as infographics, charts and graphs can emphasise a point and improve the disclosure. Information that can be presented graphically includes geographic and demographic information, performance against targets and financial information. Boards may already be presenting such information more graphically in other documents, such as ‘glossy’ annual reports.

28. Although not widespread, a few boards made some use of innovative presentation in their 2015/16 performance reports.
We recommend that boards use the NAO publication to assist them in identifying information contained in their performance reports which would benefit from the use of infographics, charts and graphs.

## Auditor’s responsibilities for the performance report

29. In 2015/16, auditors were required to check that the financial information in the performance report was consistent with the financial statements. Auditors at all boards expressed an opinion in their independent auditor’s report that the performance report was consistent with the financial statements.

30. In 2016/17 auditors are required, additionally, to express an opinion on whether the performance report has been prepared in accordance with the accounts direction (i.e. the applicable disclosure requirements of the FReM and the accounts manual).

We recommend that boards satisfy themselves that the information in their performance reports is consistent with the financial statements and meets the requirements of the FReM and accounts manual.
Performance overview

Introduction

31. The purpose of the overview section is to give a short summary that provides the user with sufficient information to understand the board, its purpose, the key risks to the achievement of its objectives and how it has performed during the year. The overview is required to include

- an optional statement from the Chief Executive providing their perspective on the performance of the board over the period
- a brief history of the board and its statutory background incorporating its purpose and activities
- the key issues and risks that could affect the board in delivering its objectives
- a performance summary.

Providing sufficient information

32. The FReM requires the overview to contain sufficient information so that the lay user should not have to look further into the accounts.

33. As demonstrated at paragraph 20, some boards’ overview sections were significantly shorter than others. In our opinion, it is unlikely that these provided the user with enough information to understand the board's performance, purpose and activities or risks without looking further into the accounts.

We recommend that boards satisfy themselves that the performance overview provides sufficient information so that a lay user has no need to go further to understand the board and its performance.

Providing a high level balanced picture of performance

34. In 2015/16, eight boards included a statement by the chief executive in the performance report which provided the user with their perspective on the board's performance. This also served as a helpful introduction to the annual report and accounts.
35. While some boards provided a high level introduction with a good balance of information, for most the content tended to focus on a small number of issues in too much detail. This did not provide the user with an overall picture of performance.

We recommend that boards include a statement by the chief executive or other introduction summarising the performance in the year.

36. The performance summary included in the overview section should provide a flavour of how the board has performed in the year. Six boards made a good attempt at the disclosure required but there is further work needed to deliver a comprehensive yet concise summary of performance.

The performance summary for NHS Orkney emphasised the priorities in the corporate plan followed by a summary of performance against the key themes in their Local Delivery Plan (LDP).
37. In some cases the performance summary had a limited scope and gave excessive detail on specific issues. The best disclosures made a link to the board’s local delivery plan (LDP), provided a brief explanation of key performance information and referred the user to the analysis section for more detail.

38. Fair and balanced disclosures help give a comprehensive assessment of performance.

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Forth Valley’s overall performance has remained positive throughout 2015/16. Significant focus is given to the assessment and monitoring of performance through the Board and its Governance Committees, the Corporate Management Team and also through detailed Directorate Reviews at operational level. A Balanced Scorecard is used to assess overall performance against LDP Standards, Annual Plan KPIs and national requirements. The majority of targets are at green or amber.

Significant progress has been seen across a number of areas. Performance against the Stroke Bundle has improved with increasing compliance with the Bundle and improved rates of admission to the Stroke Unit. In terms of Staphylococcus Aureus Bacteremia, a quarterly reduction in SABs has been seen over the period with ongoing focus on this aspect of care. Although still at red status, performance overall is in line with the national position. Complaint response times against the 20 day target have also remained positive this year at 85.6%. Strong performance has continued against the 10 Pattern Safety Essentials which are routinely reported to the Board, all are at green status. The HSMR position has remained positive throughout the year. Absence management has seen improved performance with much of the year below the Scottish average. It is acknowledged ongoing work is required to reduce the percentage to nearer the 4% target. In respect of the 4 hour Emergency Department target, although performance can be variable, the core ED performance has increased from 50.5% in 2014/15 to 93% in 2015/16 with a reduction in both 8 and 12 hour breaches.

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We recommend that boards relate their performance to their strategic vision as set out in their corporate plan and LDP.

Making disclosures specific to the board

39. Boards should report the issues and risks they face that are specific to their circumstances. In our opinion, half of the boards included specific risks while the others provided only a high level generic indication of the issues and risks they face.
40. In addition to the purpose and activities of the board, the accounts manual requires the performance overview to include a brief history of the board and its statutory background. All boards met these requirements to some degree. Disclosures should refer to the board’s specific circumstances and the services it provides to the population.

41. Some boards reproduced the standard wording from the accounts manual. Although the standard wording may convey a general understanding of the purpose of a health board, it
does not give the reader an insight into the local area and how the board is meeting the needs of its population.

42. Many boards gave a very basic historical account of their activities while some went into great detail about individual activities and did not give the user an understanding of their priorities for the year.

We recommend that boards tailor their disclosure on their purpose and activities to reflect each board's corporate priorities.

**Use of overly technical information**

43. Explanations of complex issues should be as clear and concise as possible, with the use of technical language kept to a minimum. Effective use of links to supporting documents can help.

44. For example, health and social care integration is a significant development which will impact on boards' performance. Some boards clearly set out the issues they faced and the impact this had on their services. However, the disclosures generally focussed on the structure and process to implement IJBs without highlighting the impact it will have on performance.

We recommend that boards consider their explanations of complex areas to ensure they are not written in overly technical terms.
Performance analysis

Introduction

45. The analysis section of the performance report should provide a more detailed assessment and explanation of the development and performance of the board during the year than the overview section. It is required to include

- Performance against key non-financial indicators
- Disclosures on financial performance
- Additional explanations of amounts included in the financial statements

Providing a consistent narrative on non-financial indicators

46. The accounts manual does not prescribe which non-financial targets should be used, and it is for boards to determine which measures should be highlighted together with the Scottish Government Health and Social Care Directorates (SGHSCD). In order to be balanced, issues, pressures and areas for improvement should be included, along with the board’s successes and achievements.

47. There was significant variation in the length, quality and presentation of non-financial indicators. There were some good examples of boards attempting to give a clear and balanced picture of their performance against key non financial indicators (KPIs)

| As at March 2016, 86.6% of patients referred urgently with a suspicion of cancer began treatment within 52 days of receipt of referral and 53.4% of our patients diagnosed with cancer began treatment within 31 days; performance for both measures was below the 95% target. |
| For the quarter ending December 2015, 26.6% of patients were diagnosed at first stage of cancer below the trajectory of 28.5%. |
| As at March 2016, 91.5% of our patients were treated within 18 weeks, exceeding the 90% target for Referral To Treatment. |
| NHSGSC continued to exceed the 91.5% drug and alcohol waiting times target, with 97.9% of patients referred within 3 weeks during the period October - December 2015. |
| As at March 2016, 100% of patients referred to Child and Adolescent Mental Health Services started treatment within the 18 week referral target. |

48. Some boards set out in a table the performance for each KPI, clearly showing whether the targets had been achieved.
49. The use of case studies can be an effective way to engage the user and to highlight performance developments and action to address issues.

We recommend that boards make it clear whether the target has been achieved.

50. Only one board used case studies to give the user an insight into the management of performance against the target being disclosed.

We recommend that boards consider using case studies or examples where this can help provide the user with a better insight into performance.

51. The best disclosures were those supported by explanations of action required where boards had failed to meet a target. The identification of corrective action is an important aspect of performance management and allows boards to provide a clear and balanced assessment of performance.
52. One board provided a table showing the performance against all indicators followed by tables for those scoring red, amber and green. Explanations and proposed remedial action for those scoring red were provided.

53. However, very few boards provided any narrative explaining the results or action required. This makes it difficult for the user to understand how well the board had performed. Further information could be provided on performance compared to previous years or other similar boards.

54. One board included only a link to the information on their website without any analysis or explanation of performance against their KPIs.

55. When narrative was provided, in some reports it provided a positive picture which did not always marry with the performance identified against the board’s KPIs.
We recommend that boards include explanations of performance against each indicator and outline any action required.

Clear explanation of financial performance

56. All boards included a resource outturn for capital and revenue limits and the cash requirement as required by the accounts manual. Some also included information about their ability to achieve recurring and non recurring savings.

57. The standard table from the accounts manual is complicated and not all boards provided the user with any explanation of what the table meant. In some cases the disclosure was spread across two pages making it more difficult for the user to interpret the results.

We recommend that the standard outturn table should be supported by narrative explaining what the figures mean.

Disclosure of brokerage

58. In situations where a board will not be able to achieve a break even financial performance, the Scottish Government may agree to provide additional funding (brokerage). When this occurs, a repayment schedule is agreed with SGHSCD. The accounts manual requires boards who receive brokerage to disclose the reasons for the advance, the amount received and the repayment terms in their performance report.
59. Four boards either received brokerage in 2015/16 or were still making repayments of brokerage received in prior years. Three of these boards made clear and concise disclosures explaining the arrangement.

We recommend that a clear explanation of the plan, where one is required, to return to financial balance is provided.

Disclosure of PPP/PFI arrangements

60. The accounts manual requires boards to provide details of amounts included in the financial statements. In most cases boards made appropriate disclosures to cover the amounts specified in the accounts manual. However the quality of the disclosures around the private finance initiative/public private partnerships (PFI/PPP) arrangements in place was more varied.

61. PFI/PPP arrangements are complex and can be difficult to explain in simple terms. The accounts manual requires a brief description of the PFI/PPP projects, the estimated contract value, the start and end dates of the contract, and details of any which are likely to reach financial close in the following year.

62. Nine boards had operational PFI/PPP projects in the year. Two boards made clear disclosure providing the information required for each of their projects.
These two boards provided clear and helpful information on each of their PPP/PFI projects.
important services and can have a significant impact on the boards’ financial performance. Disclosures should also be made around non profit distributing (NPD) and Hub projects.

We recommend that boards with PFI/PPP arrangements provide information in the performance report on each project that impacts on the board’s performance.
## Improvement checklist

64. The following checklist lists some simple actions to assist boards improve the disclosures in their performance reports. With a little effort the performance report of all boards can consistently provide clear and informative disclosures to allow the user to understand the board, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

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<th>Yes</th>
<th>No</th>
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<td>1. Have you reviewed the content of the performance report to ensure it addresses the specific issues and priorities in the year and meets disclosure requirements?</td>
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<td>2. Have you considered the balance between the overview and analysis sections and ensured the detail is included in the analysis section?</td>
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<td>3. Have you considered the characteristics in the FRC checklist when assessing the appropriateness of disclosures?</td>
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<tr>
<td>4. Have you used the NAO publication on corporate reporting to assist in identifying information which would benefit from the use of infographics, charts, or graphs?</td>
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<tr>
<td>5. Have you satisfied yourself that the information is consistent with the financial statements and meets the requirements of the FReM and accounts manual?</td>
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<tr>
<td>6. Have you considered whether the performance overview provides sufficient information so that lay users have no need to go further to understand the board and its performance?</td>
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<td>7. Have you included a statement by the chief executive or other introduction summarising the performance in the year?</td>
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<td>8. Have you related performance to the board's strategic vision as set out in the corporate plan and local delivery plan?</td>
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<td>9. Have you tailored the disclosure on purpose and activities to reflect the board's corporate priorities?</td>
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<td>10. Have you ensured that explanations of complex areas are not written in overly technical terms?</td>
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<td>11. Have you made it clear whether each non-financial target has been achieved?</td>
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<td>12. Have you considered using case studies and examples where they can help provide the user with a better insight into performance?</td>
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<tr>
<td>13. Have you included explanations of performance against each non-financial indicator and outlined any action required?</td>
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<td>14. Have you added supporting narrative to help explain the figures in the standard financial performance outturn table?</td>
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<td>15. Have you included in the disclosure on brokerage, where required, an explanation of the plan to return to financial balance?</td>
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<tr>
<td>16. Have you provided information on any PFI/PPP project that impacts on the board's performance?</td>
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Other useful resources

www.frc.org.uk

www.gov.uk

www.audit-scotland.gov.uk